
Answers

Section A

Marks

- 1 D
- 2 B $\text{PLN } 1,600 \times 30\% \times 9 \times 34.35\% = \text{PLN } 1,484$
Tutorial note: As Marta has not run a registered business activity before, she is entitled to lower social security calculated as 30% of the minimum monthly salary multiplied by 34.35%.
- 3 B **Tutorial note:** A standard refund of input VAT will be available 60 days after submission of the relevant return or can be accelerated to 25 days if all input invoices in the tax return have been paid and the applicable request filed. If the taxpayer had no taxable sales in the moment of purchase (e.g. when starting the business activity), the refund would be due 180 days after submission of the VAT return.
- 4 C $(\text{PLN } 200,000 - \text{PLN } 150,000) \times 19\% = \text{PLN } 9,500$
Tutorial note: As Julia has owned the apartment for less than five years since the end of the year of acquisition, she is assessed to tax at 19% on the profit on disposal.
- 5 C
- 6 C $((\text{PLN } 230,000 - \text{PLN } 8,656) \times 8.5\%) = \text{PLN } 18,814$
- 7 C **Tutorial note:** For a company which is already operating and wishes to change the date of its tax year, the transition year cannot be shorter than 12 months nor longer than 23 months.
- 8 B $((\text{PLN } 130,000 / 2) \times 18\% - 556) \times 2 = \text{PLN } 22,288$
- 9 A $\text{PLN } 1,500,000 \times 2.5\% \times 1.2 = \text{PLN } 45,000$
Tutorial note: The CIT Act regulations provide that the depreciation rate for buildings used in worse than normal conditions will be increased by a factor of 1.2.
- 10 A **Tutorial note:** As the sale is made to a business customer in the EU, the sale is zero rated and the Czech customer will operate the reverse charge mechanism in their own country.
- 11 B **Tutorial note:** The 12% shareholding meets the threshold needed for the exemption from WHT on dividends (a 10% minimum shareholding) but is insufficient to meet the exemption from WHT on interest or royalties (which both require a 25% minimum shareholding).
- 12 A $\text{PLN } 5,000 \times 13.71\% = \text{PLN } 686$
- 13 D $\text{PLN } 85,000 + \text{PLN } 45,000 = \text{PLN } 130,000$
- 14 C **Tutorial note:** For the purposes of determining the input VAT recoverable, the prior year proportion of taxable sales to total sales is used. As MS was only engaged in taxable sales in the prior year, all input VAT is recoverable.
- 15 D

Section B

Marks

1 Franciszek

- (a) Under an operating lease contract, the lessee can claim the full amount of the leasing fees paid as the tax deductible cost (applying proportional accruals if applicable). 1·0

Under a finance lease contract, the lessee can claim (i) the costs of financing (interest) based on either the lease schedule or proportionally and (ii) depreciation write offs on the capital cost of the leased assets as the tax deductible costs.

1·0

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(b) Finance lease – tax deductible cost 2014

Financing costs

	PLN	
Total charges 320,000 x 5	1,600,000	
Equipment value	(1,200,000)	
Finance charge	400,000	1·0
% of payments	25%	0·5
Paid in 2014 320,000 x 25%	80,000	0·5
Depreciation charge		
1,200,000*30%*2*5/12	300,000	1·0
		<u>3</u>

Tutorial note: Since the assets quickly become technically obsolete, the taxpayer has the right to apply the factor of 2 to depreciation (note in such a case, the factor is available throughout the whole life of an asset and does not require a reduction in the depreciation basis each year until the asset is fully written down).

(c) Operating lease – buy out price

Although the total value of the equipment is fully repaid at the end of the lease contract, the Personal Income Tax (PIT) Act provides a restriction on the level at which the buy out price may be set. The lowest level at which the parties may set the buy out price without triggering negative PIT consequences for the lessor is the net hypothetical value (NHV) of the equipment. 1·0

If the buy out price is set at a level lower than the NHV, the lessor has to account for additional deemed taxable income equal to the difference between the buy out price set and the market value of the equipment at the buy out date. 1·0

The NHV is calculated using reducing balance depreciation for the asset with a factor of 3. 1·0

Thus, in case of the office equipment, the NHV will be:

	PLN	
Initial value	39,000	
Year 1 charge 39,000 x 3 x 20%	(23,400)	0·5
	15,600	
Year 2 charge 15,600 x 3 x 20%	(9,360)	0·5
NHV	6,240	

Thus the buy out price should be set at at least PLN 6,240 to avoid any negative PIT issues for Stefan. 1·0

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Tutorial note: The monthly instalments could then be reduced accordingly to reflect the increased buy out price.

2 Efekt Jo-jo Sp. z o.o.

(a) Value added tax (VAT) March 2014

	PLN		VAT PLN	
Output VAT				
Sales of food supplements	1,250,000	x 23/123	233,740	0·5
Export of food supplements	400,000	x 0%	0	0·5
Sales of pharmaceuticals	680,000	Exempt	0	0·5
Intra-community purchase of services	350,000	x 23%	80,500	0·5
Total			<u>314,240</u>	
Input VAT				
Purchase of food supplements	840,000	x 23/123	157,073	0·5
Purchase of pharmaceuticals	320,000	Exempt sales only	0	0·5
Display in pharmacies	20,000	x 23/123 x 75%	2,805	1·0
Display in clinics	20,000	Exempt sales only	0	0·5
Display in supermarkets	20,000	x 23/123	3,740	0·5
Purchase of mixer	230,000	x 23/123 x 75%	32,256	1·0
Intra-community purchase of services	350,000	x 23%	80,500	0·5
Total			<u>276,374</u>	
Excess of output VAT (payable to tax office)			37,866	0·5
				<u>7</u>

(b) Year-end correction re March 2014 transactions

	PLN	
VAT on mixed supply purchases of goods and services (PLN 20,000 x 23/123)	<u>3,740</u>	
Recovered at 75% ratio	2,805	0·5
Allowed recovery at actual 60% ratio	<u>2,244</u>	0·5
Correction (additional VAT payable)	<u>561</u>	0·5
VAT on mixed supply purchases of non-current assets (PLN 230,000 x 23/123)	<u>43,008</u>	
Recovered at 75% ratio	32,256	} 0·5
Allowed recovery at actual 60% ratio	<u>25,805</u>	
Difference	<u>6,451</u>	0·5
	x 1/5	0·5
Correction (additional VAT payable)	<u>1,290</u>	
		<u>3</u>
		<u>10</u>

3 Marko Polo Sp. z o.o.

Corporate income tax 2014

		PLN	PLN	
Taxable income from trading in Poland			650,000	0·5
Dutch branch loss			(45,000)	1·0
Dividend from Chinese subsidiary		25,000		0·5
Gross up for 10% WHT	25,000/90% – 25,000	<u>2,778</u>		
			27,778	0·5
Polish dividend			0	0·5
Interest from Chinese subsidiary		30,000		0·5
Gross up for 10% WHT	30,000/90% – 30,000	<u>3,333</u>		
			33,333	0·5
Interest from Dutch subsidiary		15,000		0·5
Gross up for 5% WHT	15,000/95% – 15,000	<u>789</u>		
			15,789	0·5
Tax basis			<u>681,900</u>	
Tax at 19%			129,561	0·5
Credit for tax on China dividend (including underlying tax)	Working		(5,278)	W
Credit for WHT on Polish dividend			0	1·0
Credit for WHT				
Chinese interest (10%)			(3,333)	0·5
Credit for WHT on Dutch interest (5%)			(789)	0·5
Tax payable			<u>120,161</u>	

Working: Tax credit on China dividend

		PLN	
Underlying tax			
Gross dividend		<u>27,778</u>	
Pre tax income attributable			
27,778/75%		<u>37,037</u>	0·5
Chinese tax at 25%		9,259	0·5
Chinese withholding tax (WHT) at 10%		<u>2,778</u>	0·5
Total Chinese tax		<u>12,037</u>	
>19%			
Maximum tax credit equal to Polish tax at 19%			
27,778 at 19%		5,278	1·0

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4 Akuratny Sp. z o.o.

(a) Penalty interest

(i) Using the standard method for prepayments

Value added tax (VAT)	100,000 x 23%	PLN 23,000 payable by 25 December 2014	0·5
Corporate income tax (CIT)	100,000 x 19%	PLN 19,000 payable by 20 December 2014	1·0
Number of days delay	VAT: 30 December 2014 to 10 April 2015	102 days	0·5
	CIT: 23 December 2014 to 10 April 2015	109 days	0·5
PLN			
Penalty interest	at 4%*200% + 2% = 10%		0·5
	VAT 23,000*10%*102/365	643	0·5
	CIT 19,000*10%*109/365	567	0·5
		<u>1,210</u>	
			<u>4</u>

(ii) Using the simplified method for prepayments

		PLN	
VAT (as in (i))		643	0·5
CIT	100,000*19%*10%*10/365	52	1·5
		<u>695</u>	<u>2</u>

Tutorial note: Under the simplified method, the company would make monthly payments based on the tax return filed in the previous year – i.e. the simplified prepayments for tax year 2014 would be calculated on the basis of the tax due for 2012. Therefore, prepayments based on taxable income of PLN 30,000 would have been made during the year with the balance (based on the submitted tax return) due by 31 March 2015. The additional taxable income of PLN 100,000 due to the discovered invoice would therefore have resulted in penalty interest for 10 days.

(b) Refund of tax overpaid

- (i) The tax office should refund the overpaid tax and penalty interest within 60 days from the time when it receives the refund application and corrected tax return. 1
- (ii) If the tax office refuses the refund, Akuratny Sp. z o.o. may appeal to the Tax Chamber. If the Tax Chamber upholds the decision of the tax office, an appeal may be filed with the Administrative Court. The ruling of the Administrative Court may be appealed to the Supreme Administrative Court. 2

Tutorial note: In certain cases of harmonised taxes (e.g. VAT), further discussion is possible at the European Court of Justice Level; however, such discussion would not allow the tax authorities to postpone the refund payment where the Supreme Administrative Court rules in favour of the taxpayer.

- (iii) If the Tax Chamber or Court decides in favour of Akuratny Sp. z o.o., the tax office has to refund the tax overpaid and penalty interest, together with interest accrued since the original deadline for the refund. 1
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5 Aldona and Marek

Personal income tax 2014

		PLN	PLN	
Aldona				
Gross salary (11,000 x 12)		132,000		0·5
Other emoluments				
Training related to duties		0		0·5
Training not related to duties (cooking courses)		500		0·5
Excess <i>per diem</i>	700 – (9*30)	430		1·0
Motor car usage	2,000 – 1,900	100		0·5
Hotel invoice		0		0·5
Total emoluments		133,030		
Social security at 13·71% on 112,380		(15,407)		0·5
on excess over 112,380 at 2·45%		(506)		0·5
HSC base		117,117		
Costs of employment		(1,668)		0·5
			115,449	
Rental income	3,000*12	36,000		0·5
Maintenance costs	700*12	(8,400)		0·5
Depreciation	988*60*1·5%	(889)		1·0
			26,711	
Marek				
Trading income		55,000		0·5
Depreciation of equipment	22,000 + 12,000 + 3,000	(37,000)		1·0
Depreciation of room	(480,000/100)*15*2·5%	(1,800)		1·0
Social security	3,500*12*60%*34·35%	(8,656)		1·5
			7,544	
Total income			149,704	
Half income			74,852	0·5
Tax at 18%			13,473	
			(556)	
			12,917	0·5
x2			25,834	0·5
Less employment HSC	117,117*7·75%		(9,077)	1·0
Less business HSC	3,500*12*75%*7·75%		(2,441)	1·5
Tax due			14,316	
				15

6 Ostatex Sp. z o.o.

Corporate income tax 2014

		PLN	PLN	
Loss per draft accounts			(30,000)	
Interest unpaid		25,000		0.5
EU dividend (excluded in full)		150,000		1.0
Advance payment received			0	0.5
Capital payments (cash)			0	0.5
Capital contribution (usufruct)			0	0.5
Penalty interest repaid			0	0.5
Contractual penalty repaid			300,000	0.5
Bad debts collected	30,000 – 10,000		20,000	1.0
Advance payment for services	30,000*5/12 (August–December 2014)	12,500		0.5
Depreciation:				
Machinery	Working	20,813		1.5
Perpetual usufruct		0		1.0
Low value assets (10 x 2,400)		24,000		1.0
Arrangement fee	1,000,000*3%/10*7/12	1,750	0	1.0
Interest paid	1,000,000*5%*7/12	29,167		1.0
Deemed benefit			20,000	0.5
Donation			0	0.5
Sum of adjustments		<u>263,230</u>	<u>310,000</u>	
			(263,230)	
Taxable income			46,770	
Donation	Limited to 10% of taxable income		(4,677)	0.5
Tax loss brought forward	(50% available and allowed)		(30,000)	1.0
Tax base			<u>12,093</u>	
Tax at 19%			2,298	0.5
Instalments paid	11,000*19%		(2,090)	1.0
Tax due/refundable			<u>208</u>	
				15

Working: Machinery depreciation

		PLN
Cost January 2013		100,000
Depreciation 2013 (year 1)	100,000*11/12*14%*2	<u>(25,667)</u>
		74,333
Depreciation 2014 (year 2)	74,333*14%*2	<u>(20,813)</u>
		<u>53,520</u>